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Moody's Sets Schedule to Migrate Municipal Ratings to Global Scale

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By Rich Saskal

SAN FRANCISCO - Moody's Investors Service yesterday formally announced its schedule to migrate U.S. public finance ratings to its global scale, starting next month with state government ratings.

The announcement culminates a process that began earlier this year in the wake of the credit crunch, after bond issuers led by California Treasurer Bill Lockyer began to demand that the three major rating agencies change their ratings scales.

Moody's said its new scale means that municipal securities will carry ratings that will mean the same thing as the same rating for a security in other sectors, such as corporate debt.

The process will begin in October and is expected to be complete by the end of January, Gail Sussman, Moody's group managing director for U.S. public finance, said yesterday.

"One of the important points in this message is that, because there are so many ratings, we are going to roll this out in sectors," she said.

In about two weeks, Sussman said, Moody's plans to issue a special comment describing in more detail its methodology for the recalibration.

The first recalibrated ratings, for state governments, should be released in early October. That will be followed by the 50 largest local governments, then by the enterprise sectors of health care, higher education, infrastructure, and housing. The final sector to transition will be the remaining local government issuers.

Moody's says the rating transitions for each sector will take place on a single day, except for the local government sector, for which there will be transitions weekly, by state or groups of states.

The change comes under pressure from politicians like Lockyer and members of Congress, though Moody's opened the door more than five years ago, when it first offered "corporate-equivalent" ratings for taxable municipal securities marketed internationally and interest rate swaps, thereby formally stating that there were different rating scales for munis and corporates.

Earlier this year, the company announced plans to redraw the map between its municipal and global scales, but ultimately Moody's said it chose to move to one scale after more than 200 market participants responded to its request for comment, "the vast majority" preferring a single scale.

"We're pleased that Moody's at least is moving toward fairer ratings for municipal issuers, but we're going to withhold final judgment on the new system until its foundations become clear," Lockyer spokesman Tom Dresslar said yesterday.

According to Moody's, its preliminary analysis indicates that, on average, state and local government general obligation ratings will likely be two notches higher than their current municipal scale rating. Ratings on the new scale are expected to be one notch higher on average for enterprise issuers. Ratings at or above Aa3 are generally likely to receive less upward movement than those rated below Aa3.

The implied result would not satisfy California, Dresslar said. Currently rated A-plus, two notches would put the state at Aa2.

Despite the state's inability to enact a budget, the treasurer's office says the state constitution places a high priority on debt service, which receives a continuing appropriation.

"We have never defaulted and never will default," Dresslar said.

Fitch Ratings in July announced plans to recalibrate its municipal bond ratings.

Standard & Poor's states that it has and will maintain a single rating scale across all sectors. However, in May the agency said it was undertaking "a more detailed review of the comparability of credit characteristics of the public finance sector relative to those in other areas to make our criteria more transparent to the public and to promote comparability of credit opinions."

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